

MINUTES OF MEETING Draft Wednesday, May 18, 2011

The Board of Administration met on Wednesday, May 18, 2011 in the Lincoln Plaza North Building, Auditorium, 400 Q Street, Sacramento, California.

The meeting was called to order at approximately 11:09 a.m. and the following members were present:

Rob Feckner, President
George Diehr, Vice President
Terry McGuire for John Chiang
Dan Dunmoyer
Richard Costigan
JJ Jelincic
Henry Jones
Grant Boyken for Bill Lockyer
Priya Mathur
Louis F. Moret
Tony Oliveira
Howard Schwartz for Ronald Yank

Board of Administration Members excused: none

AGENDA ITEM 3 - APPROVAL OF APRIL 2011 MEETING MINUTES

On **MOTION** by Henry Jones, **SECONDED** by JJ Jelincic, and **CARRIED** that the April 13, 2011 Open Session minutes be approved as presented.

AGENDA ITEM 4 – PRESIDENT'S REPORT

President Feckner reported on the following:

- A security screening portal for Board meetings has been added as part of the enhanced building security program at CalPERS.
- CalPERS has adopted a plan to divest its stock value of approximately \$160M from 8 public companies doing business in Iran and Sudan, and will block any new investments from any of those companies.

 Congratulations to Henry Jones, who ran unopposed and retained his seat as a Board representative of CalPERS retired members.

AGENDA ITEM 5 – CHIEF EXECUTIVE OFFICER'S REPORT

Anne Stausboll reported on the following items:

- As the policy debate continues, legislative affairs staff and program staff have been busy providing information to stakeholders and legislative staff on numerous pension related bills.
- CalPERS staff has been providing technical support to the Governor's office on the Governor's pension reform proposals and is in the process of analyzing all of those proposals.
- CalPERS recently released some key observations on the report released by the California Foundation for Fiscal Responsibility that compared public and private compensation and benefits.
- CalPERS will participate in an informational hearing at the Legislature on the California Public Divest from Iran Act to discuss and explain the actions taken by the Board in the May meetings.
- In 2010, CalPERS reduced its operating costs by about \$963 million and has already targeted \$287 million in cost reductions for 2011.
- Joe Dear, Chief Investment Officer, was reelected as Chair of the Board of the Council of Institutional Investors (CII) and is serving his fifth year on the Board.
- CalPERS annual Achieving Performance Excellence (APEX) Award will be presented to 45 recipients on May 24th. APEX is the highest form of staff recognition at CalPERS.
- On April 30, the CalPERS team walked in support of the March of Dimes, March for Babies Event and raised nearly \$15,000. The team co-chairs were Marilyn Gentry and Nicole Horning.

Ms. Stausboll recognized the efforts of the CalPERS Emergency Response Team, responsible for evacuating people safely and quickly in the event of an emergency, protecting employees and property from fire danger, providing medical assistance, and performing search and rescue. Ruby Raines is the Emergency Response Coordinator, and there are 30 floor wardens and more than 275 staff who are responsible for the safety and evacuation of nearly 2,400 employees.

Steve Kessler, DEO, Operations and Technology, reported the results of initiatives aimed at increasing operational efficiency and reducing costs:

- CalPERS Investment Office has identified a total savings of \$357.5 million in 2010 and an additional \$4.7 million in 2011. These savings include \$102.5 million in reduced fees negotiated with external partners and \$215 million in fee reductions from external managers.
- The Board's strategic initiatives to improve health benefits management have resulted in \$600 million in savings to the State General fund. In 2011, savings of roughly \$81.7 million are expected. An additional \$200 million in general fund savings is expected under the reinsurance program of federal health care reform.
- Information Technology achieved a cost savings of \$1 million in reduced Blackberry purchase prices and renegotiated fees, and an additional \$450,000 in server hardware.
- Actuarial and Employer Services has achieved a cost savings of \$355,000 for employer education training by developing on-line services, and expects to save an additional \$322,000 in 2011.
- Customer Service and Education saved \$200,000 in travel by holding webinars instead of retirement fairs, and by reducing student assistant costs.
- Operation Services achieved a savings of \$600,000 via electronic mailings and an additional \$560,000 in reduced contract expenditures.

AGENDA ITEM 6 - CHIEF INVESTMENT OFFICER'S REPORT

Joe Dear, Chief Investment Officer (CIO), presented the CIO report to the Board. Items included:

- As of March 31, 2011 the Total Fund was approximately \$233.6 billion.
- For the one year period ended March 31, 2011, the net rate of return was approximately 12.9%.
- For the fiscal year-to-date period ended March 31, 2011, the net rate of return was 18.62%.

AGENDA ITEM 7 – INVESTMENT COMMITTEE

George Diehr, Chair, Investment Committee, presented the Committee Summary report to the Board. The Committee met on Monday, May 16, 2011.

Additional information may be found in the May 16, 2011 Agenda materials and transcripts of the Committee meeting.

The next meeting of the Investment Committee is scheduled for June 13, 2011 in Sacramento, California.

AGENDA ITEM 8 - AD HOC RISK MANAGEMENT COMMITTEE

The Committee did not meet in May.

AGENDA ITEM 9 – BENEFITS AND PROGRAM ADMINISTRATION COMMITTEE

George Diehr, Chair, presented the Benefits and Program Administration Committee Summary report to the Board. The Committee met on Tuesday, May 17, 2011.

Additional information may be found in the May 17, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

- Approval of the Amended Notice of Election and Schedule of Events for the 2011 Member-at-Large Special Election.
- Acceptance and approval of the June 30, 2010 actuarial valuation report for the 1959 Survivor Program with the adoption of the employer and employee monthly premiums for fiscal year 2011-12 as set forth in the attached table (Attachment 1, Table1) to the Agenda materials.
- Acceptance and approval of the June 30, 2010 Judges' II Retirement System
 actuarial valuation report along with the change in assumptions as outlined in the
 report and transmittal letter with adoption of an employer contribution rate of
 23.441 percent for the period of July 1, 2011 to June 30, 2012.

On **MOTION** by Committee and **CARRIED** with one abstention by Grant Boyken, the Board approved the following:

 Approval of the June 30, 2010 Legislators' Retirement System actuarial valuation report along with change in assumptions as outlined in the report and transmittal letter with adoption of an employer contribution rate of 0% as well as a 0% contribution rate for all members for the period of July 1, 2011 to June 30, 2012.

Also, approval of the use of a 6 percent discount rate assumption in all affected member calculations as follows:

- For service credit purchases under the "present value" method, the use of the new discount rate will apply to all applications postmarked on or after May 19, 2011.
- 2. For retirement applications, any application with a retirement date on or after May 19, 2011 will be subject to a new discount rate.

Prior to the following vote Peter Mixon, General Counsel, provided a clarification regarding the possibility of future legislation that would separate the California State University (CSU) rate from the Schools rate.

On **MOTION** by Committee and **CARRIED**, the Board approved the following:

 Adoption of the contribution rates for the State plans and Schools pool for the period of July 1, 2011 to June 30, 2012 as set forth in the attached table (Attachment 1, Table 2) to the Agenda materials.

The next meeting of the Benefits and Program Administration Committee is scheduled for June 14, 2011 in Sacramento, California.

AGENDA ITEM 10 - HEALTH BENEFITS COMMITTEE

Priya Mathur, Chair, Health Benefits Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 17, 2011.

Additional information may be found in the May 17, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Adopting a Support position on SB 751 (Gaines) – Health Care Provider Contracts: Transparency.

The next meeting of the Health Benefits Committee is scheduled for June 14, 2011 in Sacramento, California.

AGENDA ITEM 11 – FINANCE COMMITTEE

The Committee did not meet in May.

AGENDA ITEM 12 - AD HOC BOARD GOVERNANCE COMMITTEE

The Committee did not meet in May.

AGENDA ITEM 13 – PERFORMANCE AND COMPENSATION COMMITTEE

Lou Moret, Chair, Performance and Compensation Committee, presented the Committee Summary report to the Board. The Committee met on Tuesday, May 17, 2011.

Additional information may be found in the May 17, 2011 Agenda materials and transcripts of the Committee meeting.

On **MOTION** by the Committee and **CARRIED** with one abstention by JJ Jelincic, the Board approved the following:

 Acceptance of staff's recommendation to approve the third quarter status reports received from the Chief Executive Officer, Chief Actuary, General Counsel, Chief Investment Officer and his direct reporting staff.

On **MOTION** by the Committee and **CARRIED**, the Board approved the following:

 Acceptance of staff's recommendation to approve the first reading of the 2011-2012 performance plans for the Chief Executive Officer, Chief Actuary and General Counsel.

On **MOTION** by the Committee and **CARRIED** with one abstention by JJ Jelincic, the Board approved the following:

 Acceptance of staff's recommendation to approve the first reading of the 2011-2012 performance plans for the Chief Investment Officer, Chief Operating Investment Officer, Senior Investment Officers, Senior Portfolio Managers and Portfolio Managers.

The next meeting of the Performance and Compensation Committee is scheduled for June 13, 2011 in Sacramento, California.

AGENDA ITEM 14 - BOARD MEETING CALENDAR

No changes were made to the Calendar.

AGENDA ITEM 15 - PENSION SYSTEM RESUMPTION (PSR) PROJECT UPDATE

Karen Ruiz, PSR Project Manager, presented status reports on the PSR and Enterprise Transition Management (ETM) Projects.

- Customer Assistance Testing (CAT) continues as planned, with an increase in the number of testers. Data conversion remains the highest risk.
- Production simulations compare results of key business processes from the legacy system to the new system.
- Communications and readiness activities have been consistent and comprehensive. A full briefing was provided to the Benefit and Program Committee this month.

John Nichols, Project Manager, Accenture, reported on Accenture's efforts to support the CAT, including dedicated developers and front-end testers.

Chris Jasper, KPMG, Project Oversight, generally concurred with the conditions stated in the PSR report while still considering the schedule condition to be red due to slower than planned progress in CAT. Mr. Jasper commended the positive results of the business partner readiness testing in April.

AGENDA ITEM 16 – CHIEF AUDITOR AND CHIEF RISK OFFICER INDEPENDENCE CONFIRMATION

Russell Fong, Interim Chief Risk Officer, reported on the following:

- Consistent with best practices and the organizational structure recommendations, staff has created and designed the process that will provide the Board of Administration the opportunity to regularly inform and reaffirm that the Chief Auditor and the Chief Risk Officer are performing their functions independently and free of undue influence.
 - The Chief Auditor will provide confirmation of independence in the Finance Committee during a closed discussion that will be held quarterly.
 - The Chief Risk Officer will be providing confirmation of independence at the Risk Management Committee during the quarterly closed session.

These closed sessions will begin in June of 2011.

On **MOTION** by Henry Jones and **SECONDED** by Priya Mathur, the Board approved the following:

 Acceptance of the information presented in Mr. Fong's report as an action item to incorporate the described process into the Risk Management and Finance Committee charters.

AGENDA ITEM 17 - EXTERNAL AFFAIRS UPDATE

Patricia Macht, Director, External Affairs, provided an update on External Affairs and reported on the following:

- External Affairs has completed its first month of administering the Public Records Act requests. Of 30 requests received in the month, 15 were completed within the 10-day statutory period and extensions have been obtained for some others.
- CalPERS new web portal is up to provide on-line submission of Public Records Act requests. By July, a digest of those requests will also be available to the public.
- CalPERS has invited various retiree organizations to partner on a new Ambassador Program whose mission is to correct the record and provide balanced information regarding pensions throughout California. A kick-off

meeting is scheduled for May 26th. External Affairs will support the program with training, a monthly newsletter, fact sheets and communication tips to respond to breaking news.

 On May 5th, External Affairs coordinated a well-received, 6-hour course for the California State Association of Counties (CSAC) Institute aimed at demystifying public pension administration. 25 county supervisors and managers attended. The most highly rated discussion was led by Chief Actuary Alan Milligan and Paul Angelo, another actuary on the Commission.

AGENDA ITEM 18 – BOARD'S STATE LEGISLATIVE PROGRAM/BOARD'S POSITION ON STATE LEGISLATION

Danny Brown, Chief, Governmental Affairs, provided an update on State Legislation and CalPERS sponsored bills and reported on the following.

- Three CalPERS sponsored bills, AB 782 (Brownley), AB 1028 (Assembly PER&SS Committee), and AB 1042 (Allen) have made it through the Assembly without a single "no" vote and expect to be taken up by the Senate in June.
- SB 350 (Negrete McLeod) will be taken up later this month.
- SB 439 (Negrete McLeod) and the Controller's post-employment restriction bill are both moving through the Legislature unanimously. Staff have been working with the Controller's office on a post-employment restriction bill.
- A number of pension reform bills have been made 2-year bills by the authors.

AGENDA ITEM 19 – BOARD'S FEDERAL LEGISLATIVE PROGRAM/BOARD'S POSITION ON FEDERAL LEGISLATION

Tom Lussier, CalPERS Federal Liaison provided updates on federal legislation and reported on the following:

- The House Ways and Means Committee recently held a hearing on the Public Employee Pension Transparency Act (PEPTA) introduced by California Congressman Devin Nunes.
- Mr. Lussier continues to meet with California members. He has completed visits with every Democratic office and has begun meetings with Republican members.
- Mr. Lussier continues to monitor and respond to a series of legislative proposals
 that would repeal or significantly undermine important provisions of the DoddFrank financial reform legislation, and is communicating with CalPERS
 Investment staff and Committee staff on each of these issues. Congresswoman
 Maxine Waters of California has been working very closely with CalPERS and a
 number of other institutional investors to push back on these bills.

AGENDA ITEM 20 - PUBLIC AFFAIRS UPDATE

Brad Pacheco, Division Chief, Public Affairs, provided an update on Public Affairs and reported on the following:

- A new matrix provided to the Board represents some of the highlights and significant activity of the Public Affairs group over the last 30 days. This information captures news releases, television and radio appearances and interviews, placement of letters and op-eds and also enhancements to the CalPERS website.
- A new release of CalPERS video series, Insights: Conversations with CalPERS Leaders is now available on the CalPERS Responds website. It features a discussion with Chief Investment Officer Joe Dear.

AGENDA ITEM 21 - BOARD TRAVEL APPROVALS

On **MOTION** by Lou Moret, **SECONDED** by Priya Mathur and **CARRIED**, the Board approved the Board travel.

AGENDA ITEM 22 - DRAFT AGENDA FOR June 15, 2011 MEETING

No comments.

AGENDA ITEM 23 – GENERAL COUNSEL'S REPORT

Peter Mixon, General Counsel, reported on the monthly new case report and assignment matrix.

Mr. Mixon also reported that a number of applications have been received for the Board's special counsel to advise it during the administrative hearing decision process. The selection process is expected to be completed by the June Board meeting.

AGENDA ITEM 24 – PROPOSED DECISIONS OF ADMINISTRATIVE LAW JUDGES

Peter Mixon, General Counsel, reported on proposed decisions of Administrative Law Judges, cases 24A through 24N.

On **MOTION** by Priya Mathur, **SECONDED** by JJ Jelincic and **CARRIED**, the Board approved adopting the proposed decisions of Administrative Law Judges for 24A through 24N, except 24H.

On **MOTION** by President Feckner, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved remanding 24H back to the Administrative Law Judge for the taking of additional medical evidence.

AGENDA ITEM 25 - PETITION FOR RECONSIDERATION

On **MOTION** by JJ Jelincic, **SECONDED** by Richard Costigan and **CARRIED**, the Board approved denying the Petition for Reconsideration by Robert Perry.

AGENDA ITEM 26 - PUBLIC COMMENT

No public comment.

There being nothing further to come before the Board of Administration, the meeting adjourned at 12:39 p.m.

The next Board of Administration meeting is scheduled for June 15, 2011 in Sacramento, California.

ANNE STAUSBOLL

Chief Executive Officer